

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Owen County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$155,633 from the beginning of the year, resulting in a cash surplus of \$1,231,068 as of June 30, 2003.

Comment:

- The County Should Maintain Timesheets On All Employees With The Exception Of Elected Officials

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$125,000. Future collections of \$183,782 are needed over the next 17 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$87,054 as of June 30, 2003. Future principal and interest payments of \$96,666 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Honorable William P. O'Banion, Owen County Judge/Executive

Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Owen County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2003, of Owen County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Honorable William P. O'Banion, Owen County Judge/Executive

Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2003, on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owen County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Maintain Timesheets On All Employees With The Exception Of Elected Officials

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
December 19, 2003

OWEN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

William P. O'Banion	County Judge/Executive
Carl Banks	Magistrate
Bobby Gaines	Magistrate
Gary Minch	Magistrate
Eugene Vannarsdall	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Mary K. Duncan	County Clerk
Carolyn Keith	Circuit Court Clerk
Zemer Hammond	Sheriff
Lee N. Cochran	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Norma W. McDonald	County Treasurer
Renaee Gaines	Payroll Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

OWEN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>
	<u>General</u>
<u>Assets and Other Resources</u>	
<u>Assets</u>	
Cash and Cash Equivalents	<u>\$ 1,232,431</u>
Total Assets	<u>\$ 1,232,431</u>
<u>Other Resources</u>	
Amounts to Be Provided in Future Years for:	
Capital Lease	\$ 87,054
Bond Payments	<u>125,000</u>
Total Other Resources	<u>\$ 212,054</u>
Total Assets and Other Resources	<u><u>\$ 1,444,485</u></u>

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	<u>Fund Types</u>
	<u>General</u>
<u>Liabilities and Equity</u>	
<u>Liabilities</u>	
Capital Lease	\$ 87,054
Bonds:	
Series 2001	125,000
Payroll Liabilities	<u>1,363</u>
Total Liabilities	<u>\$ 213,417</u>
<u>Equity</u>	
Fund Balances:	
Unreserved	<u>\$ 1,231,068</u>
Total Equity	<u>\$ 1,231,068</u>
Total Liabilities and Equity	<u><u>\$ 1,444,485</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWEN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,153,854	\$ 1,070,441	\$ 37,117	\$ 3,261,412
Other Financing Sources:				
Transfers In	61,859		75,225	137,084
Kentucky Advance Revenue Program	1,173,800			1,173,800
Lease-Purchase Proceeds	125,942			125,942
Total Cash Receipts	<u>\$ 3,515,455</u>	<u>\$ 1,070,441</u>	<u>\$ 112,342</u>	<u>\$ 4,698,238</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,998,644	\$ 1,028,367	\$ 110,654	\$ 3,137,665
Other Financing Uses:				
Transfers Out	137,084			137,084
Bonds:				
Principal Paid	57,500			57,500
Interest Paid	4,334			4,334
Capital Lease Principal Paid	32,222			32,222
Kentucky Advance Revenue Program Repaid	1,173,800			1,173,800
Total Cash Disbursements	<u>\$ 3,403,584</u>	<u>\$ 1,028,367</u>	<u>\$ 110,654</u>	<u>\$ 4,542,605</u>
Excess of Cash Receipts Over Cash Disbursements	\$ 111,871	\$ 42,074	\$ 1,688	\$ 155,633
Cash Balance - July 1, 2002	682,636	392,677	122	1,075,435
Cash Balance - June 30, 2003	<u>\$ 794,507</u>	<u>\$ 434,751</u>	<u>\$ 1,810</u>	<u>\$ 1,231,068</u>

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owen County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owen County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owen County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owen County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

During fiscal year ended June 30, 2001, the Owen County Fiscal Court issued General Obligation Public Project Bonds, Series 2001, in the amount of \$240,000, in order to purchase a building to house the County Clerk's Office. Principal payments are made annually on January 1 and interest is due semiannually on January 1 and July 1. As of June 30, 2003, the outstanding debt included the following:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003-2004	\$ 5,344	\$ 8,000
2004-2005	5,154	8,500
2005-2006	4,952	9,000
2006-2007	4,738	9,000
2007-2008	4,524	10,000
2009-2013	18,893	56,500
2014-2018	11,483	72,000
2019-2021	2,506	52,000
Adjustment	1,188	
	<u>\$ 58,782</u>	<u>\$ 225,000</u>
Less: Additional Principal Payments Made During :		
2001		\$ 25,000
2002		25,000
2003		<u>50,000</u>
Total Outstanding as of June 30, 2003		<u>\$ 125,000</u>

Adjustment - Represents underpayment of interest made during fiscal year 2003 based on amortization schedule.

Comments: The General Obligation Public Project Bonds, Series 2001 were paid in full during fiscal year 2004. The county did so by refinancing the remainder of their debt with the Kentucky Association Of Counties.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Lease Agreements

- A. On July 15, 2002, the Owen County Fiscal Court entered into a \$75,888, four-year lease agreement with Public-Finance.com to purchase a new ambulance at an interest rate of 4.49%. An annual lease payment is due each July 25, with the first payment due July 25, 2002. The following schedule outlines the remaining lease payments.

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,499	\$ 17,741
2005	1,702	18,538
2006	<u>870</u>	<u>19,370</u>
Totals	<u>\$ 5,071</u>	<u>\$ 55,649</u>

- B. On July 15, 2002, the Owen County Fiscal Court entered into \$43,388, four-year lease agreement with Ford Motor Credit Company to purchase two police cruisers at an interest rate of 7.07%. An annual lease payment is due each July 15, with the first payment due July 15, 2002. The following schedule outlines the remaining lease payments.

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,220	\$ 9,762
2005	1,530	10,452
2006	<u>791</u>	<u>11,191</u>
Totals	<u>\$ 4,541</u>	<u>\$ 31,405</u>

Note 6. Insurance

For the fiscal year ended June 30, 2003, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

OWEN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,944,192	\$ 2,153,854	\$ 209,662
Road and Bridge Fund	959,969	1,070,441	110,472
Jail Fund	144,742	37,117	(107,625)
Totals	<u>\$ 3,048,903</u>	<u>\$ 3,261,412</u>	<u>\$ 212,509</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 3,048,903
Add: Budgeted Prior Year Surplus	500,000
Less: Other Financing Uses	<u>(99,934)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,448,969</u>

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SCHEDULE OF OPERATING REVENUE

OWEN COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPE</u>	
<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 990,570
Excess Fees	109,350
Intergovernmental Revenues	1,842,220
Charges for Services	257,693
Miscellaneous Revenues	32,200
Interest Earned	<u>29,379</u>
Total Operating Revenue	<u><u>\$ 3,261,412</u></u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWEN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 597,123	\$ 587,340	\$ 9,783
Protection to Persons and Property	528,467	492,301	36,166
General Health and Sanitation	105,408	104,646	762
Social Services	31,466	30,436	1,030
Recreation and Culture	52,377	38,743	13,634
Roads	1,004,864	886,273	118,591
Capital Projects	685,000	575,522	109,478
Administration	444,264	422,404	21,860
Total Operating Budget - General Fund Type	\$ 3,448,969	\$ 3,137,665	\$ 311,304
Other Financing Uses:			
Bond Principal	57,500	57,500	
Bond Interest	10,194	4,334	5,860
Capital Lease Principal	32,240	32,222	18
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,548,903</u>	<u>\$ 3,231,721</u>	<u>\$ 317,182</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Owen County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- The County Should Maintain Timesheets On All Employees With The Exception Of Elected Officials

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 19, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Owen County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Owen County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owen County's management. Our responsibility is to express an opinion on Owen County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owen County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Owen County's compliance with those requirements.

In our opinion, Owen County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Owen County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owen County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 19, 2003

FINDINGS AND QUESTIONED COSTS

OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Owen County.
2. No reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Owen County were disclosed during the audit. One immaterial noncompliance was disclosed.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Owen County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Owen County in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - New Liberty Revitalization Project (CFDA #14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Owen County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Maintain Timesheets On All Employees With The Exception Of Elected Officials

During our test of payroll, we noted that there were no timesheets available for two employees tested. Per KRS 337.320, "Every employer shall keep a record of . . . the hours worked each day and each week by each employee." This excludes elected officials. We recommend that beginning immediately these records be maintained. Also, if there are any other non-elected personnel working for the County and not keeping timesheets, please ascertain that they begin to keep them as well.

County Judge/Executive William P. O'Banion's Response:

Timesheets enacted as of this date.

OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OWEN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 U.S. Department of Housing and <u>Urban Development</u>		
 Passed-Through State Department for Local Government:		
Community Development Block Grants-		
New Liberty Revitalization Project (CFDA #14.228)	Not Available	\$ 575,522
 <u>U. S. Federal Emergency Management Agency</u>		
 Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.503)	Not Available	<u>4,757</u>
 Total Cash Expenditures of Federal Awards		 <u><u>\$ 580,279</u></u>

OWEN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lincoln County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

